

Pros and Cons of Crowdfunding

PROS OF CROWDFUNDING

1. Low risk

Crowdfunding requires a very low investment before you start the campaign. With a platform like Kickstarter, you do not have to fulfill the rewards unless you reach your funding goal. This means there is no obligation to do anything if you do not reach the goal. This is a huge benefit that is often overlooked.

2. Increased exposure

Using a crowdfunding platform can help spread your idea. The platform often helps you promote your campaign and your brand. Kickstarter as a platform gets more exposure than others. For this reason, it is a good place to host your campaign if you are looking to get more press.

3. Technology

Crowdfunding platforms are built on requested technology solutions. This quality makes it easy to set up and launch a campaign even if you're technically-challenged. Using a platform means you don't have to set up the more challenging technical aspects of online funding such as payment processing, SSL, an online store, etc.

4. Tap into a larger audience

Launching a crowdfunding campaign can help you get your idea to potential backers that otherwise would not have known about your project. These robust communities already have a large network of potential supporters. Over 12 million people have previously backed a Kickstarter campaign. This is a lot of people familiar with the idea of crowdfunding. This familiarity makes it easier to raise money as potential funders already understand how crowdfunding works.

5. Community makes it fun

It should be noted that launching crowdfunding campaigns can be fun and enjoyable. There is a lot of excitement around the launch and success of a crowdfunding campaign. This has created an active and helpful community. There are a ton of resources online (good and bad) about how to successfully launch a campaign.

6. No equity

Though equity crowdfunding is now available, most crowdfunding campaigns do not give supporters equity in the project. This gives you more control over your company or product. You can raise funds without granting ownership to others.

7. Leverage small donations

Crowdfunding allows you to leverage many small donations to raise a larger total amount. Without crowdfunding, this type of small donation is not feasible. Instead of taking a lot of money for a few people, crowdfunding allows you to take a little bit of money from a lot of people.

8. Social media loves crowdfunding campaigns

One of the best ways to spread your campaign is through social media. Launching a campaign creates a news event which people can get excited about. Often your backers will share your project on their social media page which offers more exposure than if you just launched a product or service without crowdfunding campaign.

9. Creates a research source

Using research is incredibly important when launching a new business. Once you have a list of backers, you can use them as a data source for developing your products. You will be able to survey them with key questions as you continue to develop your concept. Without crowdfunding, it would be more difficult to find this list of engaged users who are interested in your product.

10. Validation

People often spend great deals of money to build a product, service or idea and then launch it into the world. The problem with this is that you don't know if people are actually interested in the idea until after it launches. By crowdfunding, you are able to validate your concept before actually spending time or money on the fully completed product.

12. Free PR

Crowdfunding campaigns offer journalists and influencers an exciting and timely news story to report on. Campaigns offer a different take than standard product launches. While it can be difficult to get press for your crowdfunding campaign, once you have some the momentum will continue to build. Sending a press release for your crowdfunding campaign will not guarantee publicity, but it is possible to get free press by launching a campaign.

13. Transparency

It's easy to communicate with your backers through a crowdfunding platform. These platforms encourage updates throughout the process to engage the backers. There is more transparency in how the project is evolving due to this communication with all stakeholders.

14. Saves You Time

If your idea is terrible, you'll quickly find out because no one will back your project. This result will save you a great deal of time compared to the traditional business model of creating a product and then trying to sell it to others.

It also allows you to take an idea and get funding in less than 30 days. It can be a quick way to raise money and get started actually fulfilling your campaign promises.

15. Gives you a headstart

If you are looking to start a business, crowdfunding can give you a head start. It allows you to launch your idea quickly with minimal personal financial investment.

16. Feedback

Once you have a successfully funded campaign, you can reach out to your backers for feedback. This can be valuable as you can ask them about product specific features such as preferred colors.

CONS OF CROWDFUNDING

1. Investment of time

Though it may be less than a traditional fundraising route, you still will have to invest time in the project. The time required will be less than actually carrying out the entire project and then moving into marketing, but a campaign will still require your time. When I talk to founders, time is the one key aspect they underestimated. Make sure you set aside sufficient time to successfully prepare and run a campaign.

2. Investment of money

Though it is possible to launch a crowdfunding campaign for free, you probably will have to spend a little bit of money launching your campaign. Costs may be related to preparing a model product or investment in promotional materials such as photography or videography. It's a good idea to create a budget before you start creating a crowdfunding campaign.

3. Marketing

If you just look at the most successful Kickstarter videos, it will look very easy to launch a successful campaign. Do not be fooled. If you do not already have a large audience, it will take a considerable amount of time to market your campaign.

4. Risk of failure

In no way is this the reason why you should not launch a campaign. Yet, it should be noted that failure of your campaign will be very public.

For many campaigns, not reaching the funding is not the end of their project. Often, they will revise, improve and relaunch at a later date or continue their project with funding from a different source.

5. Delivery

You actually have to deliver the project to your backers. This is often easier said than done as many crowdfunding campaigns have struggled to fulfill their initial timeline. While completing a successful crowdfunding campaign is a lot of work, it is only the first step in a larger project.

6. Transparency

Transparency falls on both the pros and cons list. If you're successful in raising funds, you will have to communicate with your backers at all times. You will have to tell them about major and minor setbacks. This can be embarrassing if your product is delayed or has significant issues. With a traditional business, you wouldn't have to be as communicative with customers as they invest after the product is prepared.

7. Fees

If you are launching a crowdfunding campaign, you probably have to pay that platform a fee. The fee is not expensive but if you are launching a major campaign with a significant following, it may make sense to crowdfund without a platform. We actually built a calculator that helps you understand what fees you will pay to Kickstarter.

8. Less flexibility in project

Once you have launched a crowdfunding campaign, you are promising something very specific to your backers. This promise makes it difficult to change major features of your project during production. It is hard and unwise to promise one thing, take money from people, and then not deliver.

9. Does not work for non-consumer projects

We have yet to see crowdfunding work really well in a non-consumer marketplace. For example, launching a crowdfunding campaign for a business-to-business venture is tough. It is possible in the future that we may see this become more prevalent, but right now, this is not an effective use of crowdfunding.

Crowdfunding works well because backers are clear on the specific, tangible consumer product they will receive in exchange for their investment. Services or other non-tangible products are difficult to sell in campaign form.

10. Rules

Most platforms have strict rules that you need to follow. This gives you less control over your project. For example, Kickstarter has the following set of rules:

Projects must fit in their categories

Projects must have tangible thing to share

You cannot fundraise for charity on Kickstarter

11. Copycats

Since your project is unfinished, you will be launching your idea to the public before you can actually deliver. For many products, this could be risky as you are giving your competition an inside look at your future roadmap.

Though it is unlikely, I often see the question, “Can a Kickstarter idea be stolen?” That question on Quora got over 20,000 views alone.

12. Issues for non-US Citizens

Kickstarter in particular only operates in a few countries. This limitation creates issues for individuals looking to use crowdfunding from other countries. Some platforms have less rules around location so crowdfunding through established platforms is still possible.

13. Access to funds at end of campaign

Most platforms do not allow you to get access to pledged money until the end of the campaign. This means you have to wait until your project is over to get the money pledged. This could be as long as 60 days depending on the duration of your campaign.

<https://fundbeam.com/pros-cons-crowdfunding/>